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इस भाग में भिन्न पृष्ठ संख्या दी जाती है जिससे कि यह अलग संकलन के रूप में रखा जा सके।
Separate paging is given to this Part in order that it may be filed as a separate compilation.

LOK SABHA

The following Bill was introduced in Lok Sabha on the 11th December, 1972:—

BILL NO. 112 OF 1972

A Bill further to amend the State Financial Corporations Act, 1951

BE it enacted by Parliament in the Twenty-third Year of the Republic of India as follows:—

1. This Act may be called the State Financial Corporations (Amendment) Act, 1972. Short title.

63 of 1951. 2. In the State Financial Corporations Act, 1951 (hereinafter referred to as the principal Act), in section 2,— Amendment of section 2.

(*a*) after clause (*a*), the following clause shall be inserted, namely:—

'(*aa*) "Development Bank" means the Industrial Development Bank of India established under the Industrial Development Bank of India Act, 1964,';

18 of 1964.

(*b*) for clause (*c*), the following clause shall be substituted, namely:—

'(*c*) "industrial concern" means any concern engaged or to be engaged in—

(*i*) the manufacture, preservation or processing of goods;

(*ii*) mining;

(*iii*) the hotel industry;

(*iv*) the transport of passengers or goods by road or by water or by air;

(*v*) the generation or distribution of electricity or any other form of power;

(*vi*) the maintenance, repair, testing or servicing of machinery of any description or vehicles or vessels or motor boats or trailers or tractors;

(*vii*) assembling, repairing or packing any article with the aid of machinery or power;

(*viii*) the development of any contiguous area of land as an industrial estate;

(*ix*) fishing or providing shore facilities for fishing or maintenance thereof; or

(*x*) providing special or technical knowledge or other services for the promotion of industrial growth.

Explanation.—The expression "processing of goods" includes any art or process for producing, preparing or making an article by subjecting any material to a manual, mechanical, chemical, electrical or any other like operation;'.

Amendment of section 4.

3. In section 4 of the principal Act, in sub-section (*3*),—

(*a*) after clause (*b*), the following clause shall be inserted, namely:—

"(*ba*) the Development Bank,";

(*b*) in clause (*d*), after the brackets and letter "(*b*)", the brackets and letters ",(*ba*)" shall be inserted.

Insertion of new section 4A.

4. After section 4 of the principal Act, the following section shall be inserted, namely:—

Special class of shares.

"4A. (*1*) From out of the unissued capital of the Financial Corporation, as on the commencement of the State Financial Corporations (Amendment) Act, 1972, such part as the State Government may, in consultation with the Reserve Bank, specify from time to time, shall be allocated for the issue of a special class of shares.

(2) The special class of shares so allocated under sub-section (*1*), shall be,—

(*a*) divided into such number of shares of the same face value as the State Government may, in consultation with the Reserve Bank, determine;

(*b*) subscribed by the State Government and the Reserve Bank and they may do so in such proportion as may be agreed upon by and between them and the Financial Corporation shall make allotment of such shares accordingly.

(3) The funds representing the capital subscribed as aforesaid shall be used only for such purposes, in such manner and for render-

ing assistance to such class or category of industrial concerns, as the Reserve Bank may, in consultation with and after obtaining the advice of the State Government, specify in this behalf from time to time and nothing contained in section 47 or section 48 shall apply thereto.

(4) The rate of dividend declared on the special class of shares in respect of any accounting year of a Financial Corporation shall not exceed the rate of dividend in respect of its other shares.

(5) Nothing contained in sub-sections (2) to (5) of section 4, section 5, and sub-section (1) of section 6, shall apply to the special class of shares.".

Amendment of section 7.

5. In section 7 of the principal Act,—

(a) in sub-section (1), for the words "and with the approval of the Central Government", the words "based on the advice of the Reserve Bank", shall be substituted;

(b) in sub-section (2), in clause (b),—

(i) for the words "or against bonds and debentures issued by the Financial Corporation and guaranteed by the State Government", the words "or subject to the previous approval of the State Government, against bonds and debentures issued by the Financial Corporation" shall be substituted;

(ii) after the words "date on which money is so borrowed", the words "and every such bond and debenture shall be guaranteed by the State Government" shall be inserted;

(iii) in the proviso, for the word "sixty", the word "ninety" shall be substituted.

Insertion of new section 7A.

6. After section 7 of the principal Act, the following section shall be inserted, namely:—

Power to transfer rights.

"7A. The rights and interests of the Financial Corporation (including any other rights incidental thereto) in relation to any loan or advance granted or any amount recoverable by it, may be transferred by the Financial Corporation either in whole or in part, by the execution or issue of any instrument or by transfer of any instrument by endorsement or in any other manner in which the rights and interests in relation to such loan or advance may be lawfully transferred, and the Financial Corporation may, notwithstanding such transfer, act as the trustee for the transferee.".

Amendment of section 10.

7. In section 10 of the principal Act,—

(a) for clause (c), the following clause shall be substituted, namely:—

"(c) one director nominated by the Development Bank;";

(b) in clause (f), after the words "in consultation with", the words "and after obtaining the advice of" shall be inserted.

Amendment of section 11.

8. In section 11 of the principal Act, in sub-section (3), for the words "for not more than two full consecutive terms", the words "so, however, that no person elected as director shall hold office for a continuous period exceeding eight years" shall be substituted.

Amendment of section 14.

9. In section 14 of the principal Act, in sub-section (1), for the words "The managing director or any other director may resign his office by giving notice thereof in writing to the State Government", the words, brackets, letters and figures "The managing director may, by giving notice in writing to the State Government, and any director elected under clause (d) or clause (e) of section 10 may, by giving notice in writing to the Chairman of the Board, resign his office" shall be substituted.

Amendment of section 17.

10. In section 17 of the principal Act, in sub-section (1),—

(i) to clause (a), the following proviso shall be added, namely:—

"Provided that the Board may, if in its opinion it is necessary in the public interest so to do, permit the managing director to undertake, at the request of the Central Government or the State Government or the Reserve Bank, such part-time honorary work as is not likely to interfere with his duties as managing director.";

(ii) in clause (d), after the words "salary and allowances", wherever they occur, the words "and be subject to other terms and conditions of service" shall be inserted.

Amendment of section 18.

11. In section 18 of the principal Act, in sub-section (1), in clause (a),—

(i) for the words and figures "the Industrial Finance Corporation of India established under the Industrial Finance Corporation Act, 1948", the words "the Development Bank" shall be substituted; 15 of 1948.

(ii) in the proviso, for the words "the Industrial Finance Corporation of India", the words "the Development Bank" shall be substituted.

Amendment of section 19.

12. In section 19 of the principal Act,—

(a) in sub-section (3A), for the words and figures "the Industrial Finance Corporation of India established under the Industrial Finance Corporation Act, 1948", the words "the Development Bank" shall 15 of 1948. be substituted;

(b) in sub-section (4), for the words and figures "the Industrial Finance Corporation established under the Industrial Finance Corporation Act, 1948", the words "the Development Bank" shall be 15 of 1948. substituted.

Substitution of new section for section 22.

13. For section 22 of the principal Act, the following section shall be substituted, namely:—

Offences and agencies.

"22. The Financial Corporation shall establish its head office and other offices and agencies at such places as the State Government may, from time to time, specify and save as aforesaid, the Financial Corporation may establish additional offices or agencies in such other places within the State as it may consider necessary.".

14. To section 23 of the principal Act, the following proviso shall be added, namely:— Amendment of section 23.

"Provided that the State Government may, in consultation with and after obtaining the advice of the Reserve Bank, specify the class or categories of posts in respect of which appointments may be made by the Board on such remuneration and other conditions of service as the Board may determine, and no regulation made under this Act shall apply to such posts in respect of matters so determined by the Board.".

15. In section 25 of the principal Act,— Amendment of section 25.

(*a*) in sub-section (*1*).—

(*i*) after clause (*c*), the following clause shall be inserted, namely:—

"(*ca*) transferring for consideration any instruments relating to loans and advances granted by it to industrial concerns;";

(*ii*) in clause (*d*),—

(*a*) after the words "the State Government", the words "or the Development Bank" shall be inserted;

(*b*) for the words "in the transaction of any business with an industrial concern in respect of loans or advances granted, or debentures subscribed, by any one of them", the words "in respect of any matter connected with, or arising out of, the grant of loans or advances to an industrial concern, or subscription to debentures of an industrial concern" shall be substituted;

(*iii*) after clause (*d*), the following clause shall be inserted, namely:—

"(*da*) subscribing to the stocks, shares, bonds or debentures of an industrial concern from out of the funds representing the capital subscribed in accordance with the provision of section 4A;";

(*b*) in sub-section (*2*), the words "or unless it is covered by a guarantee falling under any credit guarantee scheme framed by the Central Government or such other Government or financial institution as the Central Government may notify in this behalf" shall be inserted at the end;

(*c*) in sub-section (*3*), for the word, brackets and letter "and (*c*)", the brackets, letters and word "(c) and (*ca*)" shall be substituted;

(*d*) after sub-section (*3*), the following sub-sections shall be inserted, namely:—

"(*4*) Nothing contained in this section shall entitle any Financial Corporation to hold shares in any company, whether as pledgee, mortgagee or absolute owner, of an amount exceeding thirty per cent. of the subscribed share capital of that company or thirty per cent. of its own paid-up share capital and free reserves, whichever is less.

(5) If, on the commencement of the State Financial Corporations (Amendment) Act, 1972, any Financial Corporation is holding shares in excess of the limits specified in sub-section (4), the Corporation shall report the matter forthwith to the Reserve Bank and shall, within such period as the Reserve Bank may allow, so reduce its share holdings as to conform to the provisions of that sub-section.".

Amendment of section 26.

16. Section 26 of the principal Act shall be re-numbered as sub-section (1) thereof, and—

(a) in sub-section (1) as so re-numbered,—

(i) for the words, brackets and letters, "The Financial Corporation shall not enter into any arrangements under clauses (a) and (g) of", the words, brackets and figures "On and from the commencement of the State Financial Corporations (Amendment) Act, 1972, the Financial Corporation shall not enter into any arrangements" shall be substituted;

(ii) after the words "in respect of all such arrangements", the words "together with the amount of the face value of the shares and stocks of that concern whether subscribed or agreed to be subscribed and the outstanding liabilities on account of under-writing agreements and the deferred payments guarantees" shall be inserted;

(iii) in clause (i), for the words "twenty lakhs of rupees in the case of a public limited company", the words "thirty lakhs of rupees in the case of a company" shall be substituted;

(iv) in clause (ii), for the words "ten lakhs", the words "fifteen lakhs" shall be substituted;

(b) after sub-section (1) as so re-numbered, the following sub-section shall be inserted, namely:—

"(2) Nothing contained in sub-section (1) shall apply to any transaction entered into by a Financial Corporation with any industrial concern before the commencement of the State Financial Corporations (Amendment) Act, 1972, and in relation to every such transaction, section 26 of the principal Act shall continue to apply as if the said section had not been amended by the first-mentioned Act.".

Amendment of section 27.

17. In section 27 of the principal Act, for sub-section (2), the following sub-sections shall be substituted, namely:—

"(2) Where any arrangement entered into by the Financial Corporation with an industrial concern provides for the appointment by the Financial Corporation of one or more directors of such industrial concern, such provision and any appointment of directors made in pursuance thereof shall be valid and effective notwithstanding anything to the contrary contained in the Companies Act, 1956, or in any other law for the time being in force or in the memorandum, articles of association or any other instrument relating to the industrial concern, and any provision regarding share qualification, age limit, number of directorships, removal of office of directors and such like

1 of 1956.

conditions contained in any such law or instrument aforesaid shall not apply to any director appointed by the Financial Corporation in pursuance of the arrangement as aforesaid.

(3) Any director appointed in pursuance of sub-section (2) shall—

(a) hold office during the pleasure of the Financial Corporation and may be removed or substituted by any person by order in writing by the Financial Corporation;

(b) not incur any obligation or liability by reason only of his being a director or for anything done or omitted to be done in good faith in the discharge of his duties as a director or anything in relation thereto;

(c) not be liable to retirement by rotation and shall not be taken into account for computing the number of directors liable to such retirement.".

Amendment of section 28.

18. Section 28 of the principal Act shall be re-numbered as sub-section (1) thereof, and—

(a) in sub-section (1) as so re-numbered,—

(i) in clause (b), after the word "clauses", the brackets and letters "(da)" shall be inserted;

(ii) after clause (c), the following clause shall be inserted, namely:—

"(d) grant any form of assistance to any industrial concern in respect of which the aggregate of the paid-up share capital and free reserves exceeds one crore of rupees.";

(b) after sub-section (1) as so re-numbered, the following sub-sections shall be inserted, namely:—

"(2) The Financial Corporation shall not enter into any kind of business with any industrial concern, of which any of the directors of the Financial Corporation is a proprietor, partner, director, manager, agent, employee or guarantor, or in which one or more directors of the Financial Corporation together hold substantial interest:

Provided that this section shall not apply to any industrial concern if any director of the Financial Corporation—

(i) is nominated as a director of the Board of such concern by the Government or a Government company as defined in section 617 of the Companies Act, 1956, or by a corporation established by or under any other law; or

1 of 1956.

(ii) is elected on the Board of such concern by virtue of shares held in the concern by Government or a Government company as defined in section 617 of the Companies Act, 1956, or by a Corporation established by or under any other law, by reason only of such nomination or election, as the case may be.

1 of 1956.

Explanation.—"Substantial interest" in relation to an industrial concern means the beneficial interest held by one or more of the directors of the Financial Corporation or by any relative [as defined in clause (*41*) of section 2 of the Companies Act, 1956] of such director whether singly or taken together, in the shares of the industrial concern, the aggregate amount paid-up on which either exceeds five lakhs of rupees or five per cent. of the paid-up share capital of the industrial concern, whichever is less. 1 of 1956.

(3) The provisions of sub-section (2)—

(*i*) shall not apply to any transaction relating to the business entered into prior to the commencement of the State Financial Corporations (Amendment) Act, 1972, and all such business and any transaction in relation thereto may be implemented or continued as if that Act had not come into force;

(*ii*) shall apply only so long as the conditions precedent to such disability as set out in the sub-section continue.".

Amendment of section 29.

19. In section 29 of the principal Act,—

(*a*) in sub-section (*1*),—

(*i*) after the words "of any loan or advance or any instalment thereof", the words "or in meeting its obligations in relation to any guarantee given by the Corporation" shall be inserted;

(*ii*) for the words "right to take over the management of the industrial concern", the words "right to take over the management or possession or both of the industrial concern" shall be substituted;

(*b*) in sub-section (*4*),—

(*i*) for the words "Where the management of an industrial concern is taken over by the Financial Corporation or any property is transferred and realised by it", the words "Where any action has been taken against an industrial concern" shall be substituted;

(*ii*) for the words "as incidental to such management, or transfer and realisation", the words "as incidental thereto" shall be substituted;

(*iii*) after the words "which is received by it", the words "from such management, or transfer and realisation" shall be omitted;

(*c*) in sub-section (*5*), for the words "Where the Financial Corporation takes over the management of an industrial concern", the words "Where the Financial Corporation has taken any action against an industrial concern" shall be substituted.

Amendment of section 31.

20. In section 31 of the principal Act, in sub-section (*1*), after the words "any default in repayment of any loan or advance or any instalment thereof", the words "or in meeting its obligations in relation to any guarantee given by the Corporation" shall be inserted.

Amendment of section 32.

21. In section 32 of the principal Act,—

(*a*) in sub-section (*11*), in clause (*b*), the words "or by any judge of the principal court of civil jurisdiction" shall be inserted at the end;

(*b*) after sub-section (*11*) as so amended, the following sub-section shall be inserted, namely:—

"(*12*) For the removal of doubts it is hereby declared that any court competent to grant an *ad interim* injunction under this section shall also have the power to appoint a Receiver and to exercise all the other powers incidental thereto.".

Amendment of section 33.

22. In section 33 of the principal Act, in sub-section (*2*), after the words, brackets and figures "the State Bank of India (Subsidiary Banks) Act, 1959", the words, figures and brackets "or in any of the banks specified in column 2 of the First Schedule to the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970" shall be inserted.

38 of 1959.

5 of 1970

Amendment of section 35.

23. In section 35 of the principal Act, sub-section (*3*) shall be omitted.

Amendment of section 35A.

24. In section 35A of the principal Act,—

(*a*) for the words "the State Government and the Reserve Bank", wherever they occur, the words "the State Government, the Reserve Bank and the Development Bank" shall be substituted;

(*b*) in the proviso to sub-section (*1*), for the word "ten", the word "twenty-five" shall be substituted.

Amendment of section 37.

25. In section 37 of the principal Act, for sub-section (*1*) and the proviso thereto, the following sub-section shall be substituted, namely:—

"(*1*) The affairs of the Financial Corporation shall be audited by auditors duly qualified to act as auditors of companies under sub-section (*1*) of section 226 of the Companies Act, 1956, who shall be appointed by the State Government in consultation with the Comptroller and Auditor-General of India and the Financial Corporation shall pay to the auditors so appointed such remuneration as the State Government may fix.".

1 of 1956.

Amendment of section 39.

26. In section 39 of the principal Act, in sub-section (*1*), after the words "in consultation with", the words ", and after obtaining the advice of," shall be inserted.

Amendment of section 46A.

27. In section 46A of the principal Act,—

(*a*) in sub-section (*1*),—

(*i*) for the words "and any other State", the words "and one or more other States not served in whole or in part by a Financial Corporation" shall be substituted;

(*ii*) for the words "should serve its needs", the words "should serve the needs of those States or of any area therein" shall be substituted;

(*iii*) after the words "serve the needs of those States", the words "or, as the case may be, of the area therein" shall be inserted;

(*iv*) the words "and any Financial Corporation or any State may enter into separate or successive agreements as aforesaid with one another or with other Financial Corporations of States and in relation to different areas of the States" shall be inserted at the end;

(*b*) after sub-section (*1*), the following sub-section shall be inserted, namely:—

"(*1A*) Any agreement entered into under sub-section (*1*) may be modified or rescinded by mutual agreement between the parties thereto and every such mutual agreement shall also provide for the apportionment of assets and liabilities.".

Amendment of section 48

28. In section 48 of the principal Act, for sub-section (*3*), the following sub-section shall be, and shall be deemed always to have been, substituted, namely:—

"(*3*) All regulations made under this section shall be published in the Official Gazette and any such regulation shall have effect from such earlier or later date as may be specified in the regulations.".

STATEMENT OF OBJECTS AND REASONS

In order to give a wider coverage to the activities of the Corporations, it is proposed by clause 2 of the Bill to enlarge the definition of "industrial concern" to include other establishments such as those engaged in maintenance and repair of vehicles as well as concerns engaged in fishing or maintenance of shore facilities for fishing.

2. It is felt that the Financial Corporations should be enabled to play their role effectively in the field of helping technical entrepreneurs and also in promoting units in the industrially backward areas. For these purposes, the corporations should provide assistance on soft terms to deserving units in the small and medium scale sectors of industry. With this in view, clause 4 provides for a special class of shares to be exclusively subscribed by the State Government and the Reserve Bank with no obligation regarding payment of minimum guaranteed dividends.

3. Clause 5 of the Bill dispenses with the need to take the prior approval of the Central Government for the fixation by the Reserve Bank of interest on the bonds issued by the Financial Corporations. The limit for the issue of *ad hoc* bonds by a financial corporation is enhaced from 60 per cent. to 90 per cent. of the paid-up capital. Such bonds shall be issued with the previous approval of the State Government and guaranteed by the State Government. It has thus been provided that the State Government is obliged under law to stand guarantee in respect of such issues of bonds.

4. To ease the constraint in the resources of the Financial Corporations, it is provided in clause 6 that the instruments relating to loans or advances granted by a Financial Corporation may be transferred to other institutions.

5. It is proposed to ensure that the appointment by the State Government of a managing director, who is the chief executive of a Corporation, is made only after proper consultation and after obtaining the advice of the Reserve Bank. Clause 7 of the Bill is intended for the purpose.

6. Clause 13 of the Bill empowers a Financial Corporation to establish additional offices or agencies as it may consider necessary for the purposes of its business.

7. The Board of the Financial Corporation is empowered by clause 14 of the Bill to determine the remuneration and other conditions of service of certain categories of personnel whose services are essential for the proper running of a Financial Corporation. They will in that respect not be governed by the regulations prescribed under the Act.

8. There is a widening of the scope for assistance by Financial Corporations by permitting the granting of assistance on the guarantees available under any credit guarantee scheme. This is expected to be of great help to small entrepreneurs. To prevent disproportionate locking

up of funds of a Financial Corporation in the share capital of any industrial unit and also to spread the assistance more equitably, appropriate ceilings are provided in respect of the holdings. To spread the assistance to a larger number of industrial units and also to reduce the risk of the Financial Corporations in the matter of guarantees and underwriting obligations, it is proposed to have an overall ceiling in the granting of assistance while at the same time enhancing the limits of loan assistance suitably. Clauses 15 and 16 of the Bill are intended to achieve the above objects.

9. The Financial Corporations normally reserve the power to nominate one or more directors on the Board of the assisted concerns. The amendment to section 27 of the Act by clause 17 of the Bill is intended to enable the Financial Corporations to exercise the power more effectively.

10. It is the intention to exclude assistance to large industrial concerns and to concerns in which the directors of the Corporation are beneficially interested. These are provided for in clause 18 of the Bill.

11. As there are Union territories with areas contiguous to more than one State and as it is desirable that they are enabled to form joint Financial Corporations with more than one State, clause 17 incorporates the necessary amendments to section 46A of the Act. To achieve the purpose, provision is also made to rescind existing agreements where necessary.

12. The Bill seeks to achieve these main objects. Opportunity has also been taken to incorporate some other amendments which are found necessary for the smooth working of the Corporations. They are of consequential or procedural nature. The notes on clauses appended to the Bill explain the provisions thereof.

NEW DELHI; Y. B. CHAVAN.

The 30th November, 1972.

PRESIDENT'S RECOMMENDATION UNDER ARTICLE 117 OF THE CONSTITUTION OF INDIA

[Copy of letter No. 11-18/72 IF.II, dated the 30th November, 1972 from Shri Y. B. Chavan, Minister of Finance to the Secretary, Lok Sabha.]

The President having been informed of the subject matter of the proposed State Financial Corporations (Amendment) Bill, 1972, recommends the introduction of the Bill in the Lok Sabha under clause (1) of article 117 and for its consideration under clause (3) of article 117 of the Constitution.

Notes on clauses

Clause 2 provides for the enlargement of the definition of "industrial concern" so as to enable the State Financial Corporations to cover a wider category of concerns. It also defines the term "Development Bank".

Clause 3 seeks to make the "Development Bank" a distinct shareholder of a Financial Corporation.

Clause 4 provides for the creation of a special class of shares to be subscribed by the State Government and the Reserve Bank only and for specifying the purposes for which the funds represented by the special class of shares may be used. It also provides that the stipulation regarding guarantee for the repayment of the share capital and for the payment of minimum dividend shall not be applicable to those shares.

Clause 5 seeks to dispense with the prior approval of the Central Government in regard to fixation of interest on the bonds issued by a Financial Corporation. It also provides that the *ad hoc* bonds issued by a Financial Corporation in favour of the Reserve Bank with the approval of the State Government be guaranteed statutorily by it. It seeks also to increase the ceiling of *ad hoc* bonds which may be issued by a Financial Corporation from sixty to ninety per cent. of its paid-up capital.

Clause 6 enables a Financial Corporation to transfer instruments relating to a loan or advance to other investment institutions.

Clause 7 seeks to replace the representative of the Industrial Finance Corporation by a representative of the Development Bank on the Board of a Financial Corporation. It also provides that in the appointment of a Managing Director of a Financial Corporation, the State Government concerned should not merely consult the Reserve Bank but should obtain its advice before making the appointment.

Clause 8 provides clearly that no elected Director shall hold office on the Board of the Financial Corporation for a continuous period of more than eight years.

Clause 9 proposes certain procedural changes in the matter of acceptance of resignation of elected Directors of a Financial Corporation.

Clause 10 makes it clear that the Managing Director of a Financial Corporation can be nominated by the Central or the State Government concerned on the Boards of other bodies, if deemed necessary. It also provides that the State Government shall not only fix the salary and allowances of the Managing Director but also his other terms and conditions of office.

Clauses 11 and *12* are consequential to the amendment proposed by clause 7 of the Bill.

Clause 13 provides that in addition to the powers of the State Government to specify where the offices or agencies of a Financial Corporation should be opened, the Financial Corporation should also have the discretion to open such offices at such places as it may consider necessary.

Clause 14 provides that in respect of certain categories of posts specified by the State Government in consultation with the Reserve Bank, the Board may determine the remuneration and other terms and conditions, without the need to frame regulations.

Clause 15 amends section 25 of the Act in several respects. It empowers a Financial Corporation to transfer the instruments relating to loans and advances to other institutions in order to ease the constraint on its resources position. It clarifies that in the matter of performing agency functions on behalf of the Central Government, State Government or the Industrial Finance Corporation, a Financial Corporation may perform any function and not merely confine itself to sanctioning loans and advances. It enables a Financial Corporation to undertake new activities out of the funds raised by way of special class of shares created by clause 4 of the Bill. It also enables a Financial Corporation to grant loans covered under the guarantee schemes operated by the Reserve Bank or under any other guarantee scheme notified by the Central Government. It seeks to place certain restrictions on a Financial Corporation's holdings in the share capital of its assisted concern and also provides for a gradual reduction in the Corporation's holdings in the share capital of concerns already assisted by it prior to the proposed amendment, within such period as the Reserve Bank may deem fit to allow.

Clause 16 seeks to increase the ceiling limit of loans and advances which may be given by a Financial Corporation from ten lakhs of rupees to twenty lakhs of rupees in the case of an industrial concern promoted as a private limited company and from ten lakhs of rupees to fifteen lakhs of rupees in the case of proprietorship and a partnership concern, but at the same time to place an overall ceiling on the quantum of assistance of all kinds taken together, to a single concern. It also provides that the ceiling do not apply to the transactions already entered into by a Financial Corporation prior to the amendment.

Clause 17 enables a Financial Corporation to exercise its powers of nomination of directors on the Board of Directors of assisted concerns more effectively.

Clause 18 is consequential to clause 15 of the Bill. It also places a statutory restriction on the assistance by a Financial Corporation to an industrial concern whose aggregate of the paid-up capital and free reservice is more than one crore of rupees. It also prohibits a Financial Corporation from granting assistance to any industrial concern in which any director of the Corporation may be having a beneficial interest.

Clauses 19 to *21* enable a Financial Corporation to effectively realise its outstanding dues from a defaulting industrial concern.

Clause 22 enables a Financial Corporation to deposit its moneys also in the fourteen nationalised banks.

Clause 23 seeks to remove the present ceiling on the rate of five per cent. on the dividends which may be declared by a Financial Corporation once it builds up its reserve fund equal to its share capital and also to provide that the surplus after payment of dividend need not be transferred to the State Government concerned but may be retained in the Corporation, in order to strengthen its reserves.

Clause 24 is consequential to clause 3 of the Bill and also provides that the limit of accrual to the Special Reserve Fund be raised from ten per cent. to twenty-five per cent. of the paid-up share capital of a Financial Corporation.

Clause 25 provides that the accounts of a Financial Corporation need be audited only by the auditors appointed by the State Government concerned in consultation with the Comptroller and Auditor-General of India.

Clause 26 provides that the directions to a Financial Corporation on questions of policy shall be issued by the State Government not merely in consultation with, but after obtaining the advice of the Reserve Bank.

Clause 27 enables the administrations of Union territories, with areas not contiguous to a single State, to enter into separate agreements with the Governments of the States contiguous to each of its areas, in forming Joint Financial Corporations. Consequently it provides for rescinding agreements already entered into, if deemed necessary.

Clause 28 empowers the Board of a Financial Corporation to give effect to the regulations framed by it either prospectively or retrospectively.

FINANCIAL MEMORANDUM

In respect of certain clauses which have a financial implication on the State Governments, the burden will fall on the Central Government in so far as the Union territories are concerned.

2. Clause 4 of the Bill seeks to create a special class of shares to be subscribed by the State Government and the Reserve Bank exclusively. Clause 5 of the Bill purports to make it obligatory on the part of State Governments to guarantee the *ad hoc* bonds issued by a financial corporation with the previous approval of the State Government concerned. The limit of *ad hoc* bonds which may be issued by a Financial Corporation has also been enhanced from 60 per cent. to 90 per cent. of the paid-up capital.

3. In the normal course it is not expected that any recurring expenditure from the Consolidated Fund of India would be involved. In regard to non-recurring expenditure, the Central Government will have to contribute capital to the special class of shares referred to in clause 4 of the Bill, where the Administrations concerned and the Reserve Bank of India decide amongst themselves to issue the capital of Joint Financial Corporations. It is not possible to anticipate at this stage the amounts that may be required to be subscribed for the purpose by the Central Government. The same will have to be covered by appropriate budget sanction at the relevant time of issue of capital. In regard to the guarantees under clause 5 to be given in respect of Joint Financial Corporations by the Central Government, it is also not possible to anticipate at this stage how the liabilities under the guarantee would arise but it is expected to be marginal.

MEMORANDUM REGARDING DELEGATED LEGISLATION

Clause 14 of the Bill provides that the State Government may, in consultation with and after obtaining the advice of the Reserve Bank specify the class or category of posts which are essential for the proper running of a Financial Corporation. These appointments may be made by the Board on such remuneration or other conditions of service as the Board may determine without being tied down by regulations.

2. Clause 28 of the Bill is intended to making of the regulations prospectively or retrospectively.

3. The matters in respect of which power is conferred on State Government, the Reserve Bank or the Board under clauses 14 and 28 relate to the day-to-day administration of the Financial Corporations or to the implementation of the policy which is already embodied in the Bill and the delegation of legislative power is of a normal character.

S. L. SHAKDHER,
Secretary.

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